ATTACHMENT J10

Example Completion of Schedule B-1

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ATTACHMENT J40

Example Completion of Schedule B-1

The following example is provided as a demonstration of one method to complete Schedule B-1, *Utility Service Payment by the Government*. Any resemblance to conditions or costs at any U.S. Army Base is strictly coincidental. Similarly, any resemblance of the hypothetical bidder/offeror in this example to existing entities is strictly coincidental. **Offerors are advised not to place any importance on values used or assumptions made in this example.**

J40.1 Background of Example

The Army is considering privatizing the water utility system at one of its bases (Example Army Base). It plans to complete the privatization in Year 2001. The Army has issued an RFP that, among other things, requires Offerors to complete Schedule B-1 presented in Section B of this RFP.

An interested party, Party X, reviews the RFP and decides to submit a proposal for the water system. In preparing its proposal, Party X conducts a system evaluation and determines the following:

1. The average monthly system operating cost needing to be recovered from the Army is $25,000. This amount includes recovery of operation, maintenance, repair, administration, and general costs. These costs are considered fixed in that they do not vary with the load on the system.
2. The value of the water utility system is $7,000,000.
3. The system has excess capacity that is potentially usable for customers other than the Army. The value of this excess capacity is 15 percent of the existing system value.
4. There are a number of physical and functional deficiencies in the system. To correct these deficiencies, two upgrades are required. The first will cost $2,548,500 and take 8 months to complete and the second will cost $3,822,680 and take 11.5 months to complete.
5. In addition to the remedies to system deficiencies, there will be a need for continuing renewals and replacements as other plant and equipment wears out with time. Party X prepares a 50-year schedule for renewals and replacements beyond those needed to remedy system deficiencies in accordance with Section L.4.3 of the RFP. The schedule includes no costs in some years and substantial costs in other years. Party X also projects the value of the utility system at the end of 50 years of ownership and operation.
6. Beyond correction of physical and functional deficiencies and normal renewals and replacements, no other improvements of the system are anticipated.
7. The system is in good enough condition that purchase costs can be amortized over 15 years.

J40.2 Schedule B-1 Calculations

This section describes calculations that Party X could make in completing Schedule B-1. Although this would be one reasonable way to complete the schedule, other logical approaches could be taken.

SCHEDULE B-1
Utility Service Payment by the Government

Example Army Base		
CLIN[a]	**Utility System**	
Sub-CLINS	**SUPPLIES/SERVICES**	**MONTHLY SERVICE CREDIT/CHARGE**
AA	Fixed Monthly Charge (see B.5.2.1, *Service Charges)* The Contractor shall provide utility service in accordance with Section C, *Descriptions, Specifications, and Work Statement.*[b]	$ 80,839
AB	Monthly Credit as Payment for Purchase Price. (see B.5.2.2, *Monthly Credit as Payment for Purchase Price*). $_____38,888__ Monthly Credit _____180__# of months	$(38,888)

[a] CLIN number to be filled in by the Offeror. CLIN numbers are shown in Schedule A paragraph B.3, *Systems to be Privatized*.

[b] The Offeror should enter the Fixed Monthly Charge, as computed in Schedule L-1. Additions to the Fixed Monthly Charge will be handled in accordance with Section H.9, *Accounting for Capital Upgrades/Purchase Price*, and Schedule L-3, but should not be included in the price offered for Sub-CLIN AA.

J40.2.1 Sub-CLIN AA Calculation

Use Schedule L-1, *Calculation of Fixed Monthly Charge*, to calculate the Fixed Monthly Charge. The costs entered in Sub-CLIN AA come from the last line in Schedule L-1.

Schedule L-1, Line 1 – Operations and Maintenance (O&M): The proposed monthly rate for operating the system (operation, maintenance, repair, administration, and general costs) is $25,000 per month (from J40.1, item 1), which is $15,000,000 ($25,000 x 600 months) over the 50-year life of the contract.

Schedule L-1, Line 2 –Renewals & Replacements (R&R): In order to calculate this Monthly Charge, Party X considered its projected schedule of renewal and replacement expenditures (beyond those made to remedy system deficiencies), as outlined in Schedule L-2, and the system's residual value at the end of 50 years (from J40.1, item 5). A Monthly Charge of $55,839. This is

calculated by dividing the Total Contract Amount by 600 ($33,503,314/600 = $55,839). *[This approach is one of several possibilities potential bidders could use.]*

Schedule L-1 - Calculation of Fixed Monthly Charge

Component	Monthly Charge
1. Operations and Maintenance (O&M)	25,000
2. Renewals & Replacements (R&R) (use Schedule L-2 to compute)	55,839
Total Fixed Monthly Charge (to be entered in Sub-CLIN AA)	**80,839**

SCHEDULE L-2
RENEWALS AND REPLACEMENTS SCHEDULE
50-Year Schedule

Year	R&R Price ($1,000)	Description of Renewal or Replacement
2001	-----	None
2002	-----	None
2003	-----	None
2004	-----	None
2005	-----	None
2006	-----	None
2007	-----	None
2008	-----	None
2009	-----	None
2010	14,628	Replace system cast iron pipe with PVC - Expected life: 50 years; Replace transite - Expected life: 50 years
2011	-----	None
2012	-----	None
2013	-----	None
2014	-----	None
2015	7,000	Replace fire hydrants - Expected life: 50 years
2016	-----	None
2017	5,000	Replace underground storage tanks - Expected life: 75 years
2018	-----	None
2019	-----	None
2020	-----	None

Year	R&R Price ($1,000)	Description of Renewal or Replacement
2021	-----	None
2022	-----	None
2023	-----	None
2024	-----	None
2025	-----	None
2026	-----	None
2027	-----	None
2028	-----	None
2029	-----	None
2030	-----	None
2031	50	Replace Well A - Expected life: 75 years
2032	-----	None
2033	25	Replace Well B - Expected life: 75 years
2034	-----	None
2035	1,000	Replace galvanized iron pipe with PVC - Expected life: 50 years
2036	-----	None
2037	-----	None
2038	-----	None
2039	11	Replace Well C - Expected life: 75 years
2040	4,989	Replace Section 100 and 200 Pipe - Expected life: 50 years
2041	-----	None
2042	25	Replace Well D - Expected life: 75 years
2043	-----	None
2044	-----	None
2045	700	Replace ductile iron pipe - Expected life: 75 years
2046	-----	None
2047	50	Replace Well E - Expected life: 75 years
2048	25	Replace Well F - Expected life: 75 years
2049	-----	None
2050	-----	None

J40.2.2 Sub-CLIN AB Calculation

Party X proposes a purchase price of $7 million (from J40.1, item 2), with payment of this purchase price over 15 years (180 months). Accordingly, the monthly credit as payment is $38,888. Credit over the life of the contract would be ($38,888 / month x 180 months).

J40.3 Example Schedule L-3 Calculations

Schedule L-3, Line 1 – Initial Capital Upgrades (from J40.1, item 4) - Party X proposes a Monthly Charge of $8,495 for completing upgrade Project 1. If and when Project 1 is completed (for this example it is assumed the Project will be completed in month 8 as proposed), the Monthly Charge for the project ($8,495) will be added to the Fixed Monthly Charge for the number of months over which the project will be amortized (300). These costs are **not** entered anywhere in Schedule B-1. Similarly, the Monthly Charge for upgrade Project 2 ($12,742) is calculated by amortizing $3.82 million over 25 years (300 months) . If and when Project 2 is completed (assume month 12, as proposed), the Monthly Charge for that project will be added to the Fixed Monthly Charge for the number of months over which that Project will be amortized (300). As with Project 1, these costs are **not** entered anywhere in Schedule B-1.

Schedule L-3, Line 2 – Recoverable Portion of the Purchase Price (from J40.1, item 3) - This calculation is be based on an allocation of 85 percent of the purchase price to the Army and 15 percent of the purchase price to uses other than for the Army. In this example, the amortization period proposed are the same as for the payment by Party X to the Army for the utility system. Accordingly, Party X proposes to charge the Army 85 percent of the purchase payments that it is making to the Army. As with the Initial Capital Upgrades, this number is not entered anywhere in Schedule B-1.

Component Name	Project Cost	First Full Month Project Will Be in Service	# of Months to Amortize Component	**Monthly Charge**
1. Initial Capital Upgrades				
Project 1	2,548,500	9	300	8,495
Project 2	3,822,680	13	300	12,742
2. Recoverable Portion of Purchase Price	5,950,000*	NA	180	33,054

* = $7,000,000 x's 85% = $5,950,000

J40.4 Calculation of Monthly Payments

The monthly payment (i.e., what the utility service provider gets paid) for each month of the contract period is listed in the last (i.e., seventh) column of Table J40-2. It is the sum of columns 2 through 6 (the fixed and variable portions of the Monthly Service Charge). Initially, this would be $75,005. It would increase to $83,500 in Month 9, the first full month that upgrade Project 1 will be in service, then to $96,242 in month 13, the first full month that upgrade Project 2 will be in service. In month 181, after the purchase price of the utility system is fully amortized, the monthly payment will increase to $102,076. Then in Months 309 and 313, when upgrade Projects 1 and 2 are fully amortized, the monthly payment will fall to $93,581 and $80,839, respectively. It will remain at $80,839 for the remainder of the contract period.

(1) Months of Contract	(2) Fixed Portion of Monthly Service Charge (Sub-CLIN AA)	(3) Credit for Purchase Price (Sub-CLIN AB)	Additions to the Fixed Monthly Charge			(7) Monthly Payment to Contractor
			(4) Project 1	(5) Project 2	(6) Recoverable Portion of Purchase Price	
1-8	80,839	-38,888	0	0	33,054	75,005
9-12	80,839	-38,888	8,495	0	33,054	83,500
13-180	80,839	-38,888	8,495	12,742	33,054	96,242
181-308	80,839	0	8,495	12,742	0	102,076
309-312	80,839	0	0	12,742	0	93,581
313-600	80,839	0	0	0	0	80,839